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Allocation of Property Tax Revenues by Board of Supervisors under Proposition 13

Prop. 13, 6/78

Real prop. tax -- CA -- SC co.

Background

Proposition 13 (Jarvis-Gann Initiative) requires counties to collect a 1% property tax (or \$4.00 per \$100.00 of assessed value) and "apportion it according to the law to the districts within the counties." Senator Gregorio introduced SB2212 as a mechanism to implement the apportionment requirement. As introduced, SB2212 provides complete discretion to the Board of Supervisors in determining the basis upon which apportionment is to be made. The legislature will be considering alternatives to many topics affected by Proposition 13, should it pass on June 6, including vesting complete apportionment discretion to the Board of Supervisors. Senator Gregorio's office indicated the objectives they considered important on apportionment provisions established by the legislature are:

- local control at the county level
- as simple as possible for ease of application and understanding
- a one-year measure to insure subsequent consideration based on experience.

Most of the topics discussed in this paper are common to staff discussions current at the legislature. The purpose of this paper, however, is to assist discussion of important issues regarding possible apportionment by the Board of Supervisors.

What is Apportioned by the Board of Supervisors

The total amount to be apportioned under Proposition 13 is the rate of \$4.00/\$100.00 applied to a 1978-79 "Jarvis" roll. The "Jarvis" roll is

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the value of real property as of March 1, 1975, adjusted by 2% per year increases and/or by new construction or change in ownership, to a March 1, 1978 value.

The Board of Supervisors (or the Legislature) could determine that a specific portion of the rate is to be dedicated to school districts. Further, the Board (or the Legislature) could assign the school allocation responsibility to the County Board of Education.

Objectives for Apportionment

There are many possible objectives for apportionment; five are described below.

1. Allocation to retain the relative share of property tax revenue by the taxing jurisdictions.

"Relative share" could refer to the proportion that taxing jurisdictions have with respect to each other based on either the 1977-78 assessment roll or the 1978-79 "Jarvis" roll. Areas with high amounts of construction or property transfers since 1975 would improve their relative share under a "Jarvis" roll.

2. Allocation to achieve equal funding per person.

This objective would allocate available monies on a per-capita basis to each property tax receiving government. This objective would serve to equalize governmental expenditures to individuals, an approach used in school financing.

3. Allocation to assure "minimum" provision of certain services, e.g. fire or schools.

This objective implies "set-asides" for specific functions. Set-asides could be either fixed amounts or a fixed rate. Dedication of a specific rate to school districts, (or an amount per unit attendance), would

be appropriate to this objective. Determination of "minimum" provision is objectively and politically difficult. Allocation as a proportion of the 1977-78 ^{budget has a simplicity that may not reflect 1978-79} requirements due to significantly different circumstances, such as sharply declining or increasing enrollments, or the declining service area, and zoning, of the Central Fire District.

4. Allocation to assure services for specific populations, such as low income, elderly or youth.

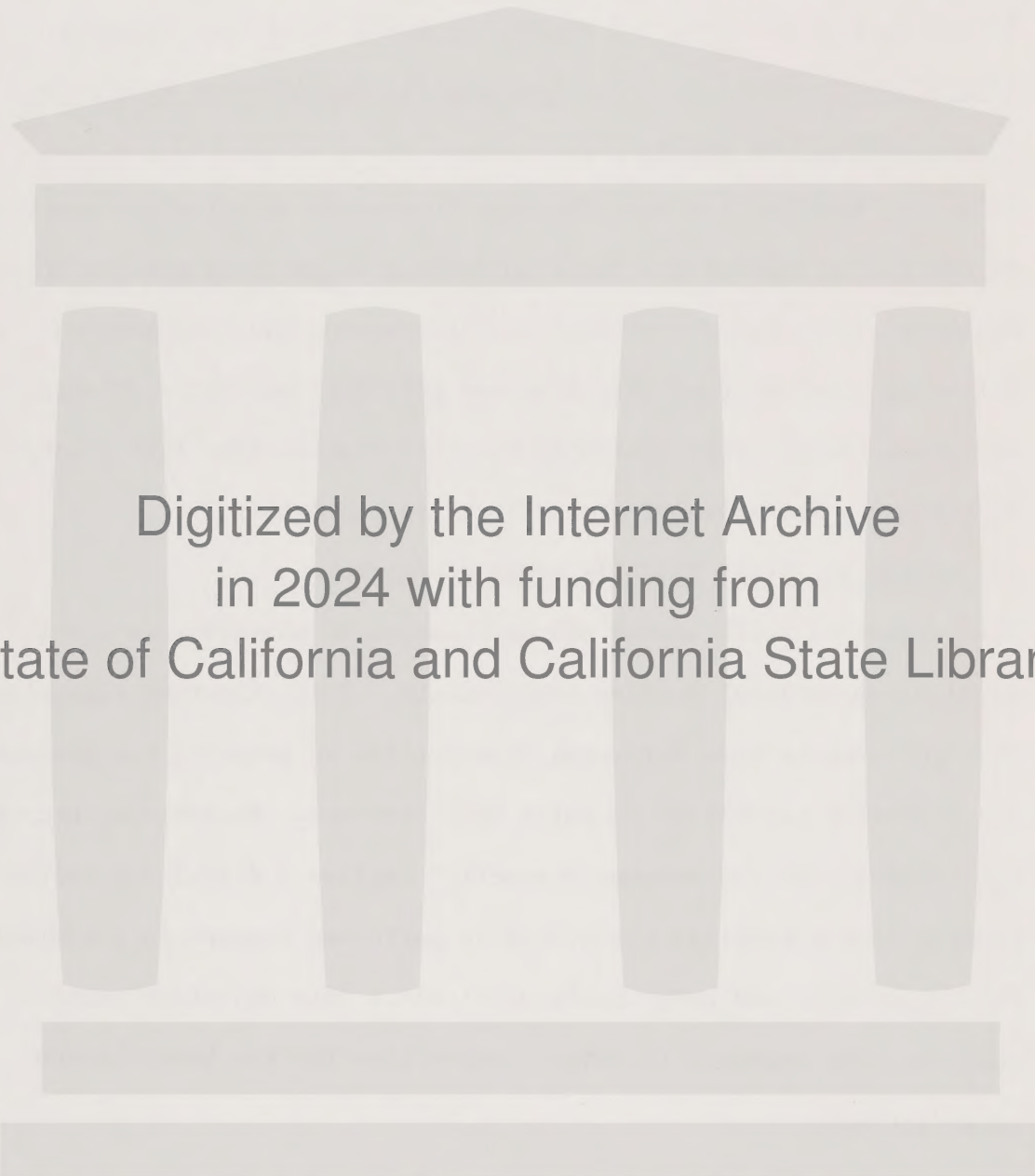
This objective implies distributions to provide "qualifying" services to particular populations based on funding requests by governments. Defining "qualifying" services and determining equities between differing services pose objective and political problems. Changes in target groups since available base information (the 1975 county-wide census, for example) are not readily available.

5. Allocation to assist fiscally needy governments.

This objective would assist all governments in achieving an equal level of operational funding requirements. This objective recognizes that governments have differing dependencies on property tax revenue and differing capacities to raise other revenue. Determining property tax "dependency" and revenue "capacity" implies a fiscal and service pricing review function not currently performed (except in a nominal role by LAFCO), and politically difficult. This objective would complement an approach to reduce competition for tax base between jurisdictions.

Measures for Apportionment

Apportionment could be related either to "direct" measures, such as assessed valuation or population, or to "composite" measures, such as calculated for the Federal Housing and Community Development Block



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Grant or General Revenue Sharing programs.

~~Direct Measures~~

Assessed valuation is a direct explicit measure for apportionment to all property tax receiving governments. The specific assessed valuation should be defined to include, or not, the Home Owners Property Tax deduction, *(91750 of AV) and The Business Inventory Tax deduction.* (As indicated in table A-1, there are slight differences between the city distributions if the Homeowner and Business Inventory deductions are included.) Redevelopment Agency areas under tax increment financing (which may not survive) may be defined as either the entire assessed value or the value subject to local property tax.

Population estimates prepared annually by the State Department of Finance could serve as the basis for allocation to cities and to the County. The State does not prepare population estimates for special districts. Standard attendance measures, such as average daily attendance or equivalent full-time students, could be used for allocation to school and junior college districts. Table A-2 reports the distribution of estimated populations by city since 1975.

The effects of population or assessed value rather than the other measure for city allocation is reported in the table below. Cities with relatively low assessed value per capita, such as Gilroy, Milpitas, Morgan Hill and San Jose, benefit from the use of population as the measure rather than assessed value.

Relative Changes in City Allocations with 1977-78 AV and 1978 Population

<u>CITY</u>	<u>AV/per capita</u>	<u>AV rather than Population</u>	<u>Population rather than AV</u>
Campbell	\$5,197	- 2.4%	2.5%
Cupertino	\$8,381	55.1%	-36.6%
Gilroy	\$3,962	-25.3%	33.9%
Los Altos	\$7,009	32.3%	-24.4%
Los Altos Hills	\$8,856	66.6%	-45.3%
Los Gatos	\$5,783	9.2%	- 8.4%
Milpitas	\$4,112	-22.6%	29.3%
Monte Sereno	\$7,060	32.7%	-24.7%
Morgan Hill	\$4,081	-23.1%	30.1%
Mt. View	\$6,480	21.8%	-18.0%
Palo Alto	\$9,919	86.4%	-46.3%
San Jose	\$4,254	-20.0%	25.0%
Santa Clara	\$6,798	27.9%	-21.4%
Saratoga	\$6,757	27.1%	-21.3%
Sunnyvale	\$6,420	20.8%	-17.2%
Unincorporated	\$4,773	-10.2%	11.4%

Composite measures are indices developed by combining several elements in a particular manner. The advantage of composite measure is that different topics can be included in the index value to better reflect the objective to be achieved by the apportionment.

An apportionment to assist fiscally "needy" cities could use a composite measure to determine the proportion that property tax revenue was to the financing of standardized municipal services. The provision of fire, library and utility services vary among the cities in Santa Clara County: Central Fire District provides fire services to Cupertino, Los Gatos, Monte Sereno and a portion of Saratoga; many cities are served by the County Library District; Palo Alto and Santa Clara provide extensive municipal utility services. Sewage and waste collection and disposal services vary among the cities. A standardized measure of a city's

property tax fiscal dependence might thus be:

Property tax revenue

(total adjusted revenue less expenditures for fire, library and utilities)

"Adjusted revenue" could exclude general obligation debt service, and state and federal grants and subventions proscribed for specific purposes, such as Housing and Development Block Grants. The adjusted revenue calculation would include sales tax, general subventions, surpluses from utilities, fees and charges, and other revenue sources in addition to property tax. Excluding expenditures for fire, library and utility services enables the cities to be compared on a more constant basis. It should be noted that this measure does not refer to other services that may or may not be provided by cities, nor does it refer to the levels--and hence varying costs--of provided services. The wide variation in levels of municipal services precludes all but very elementary approaches--such as an arbitrary minimum per capita expenditure ^{per service} to assist comparability between cities.

Property Tax Financing for Special Districts

Special districts are financed by services charges, special assessments, rates and rents as well as by property tax revenue. Enterprise activities, such as Sewerage, Sanitation, Water and the El Camino Hospital District, collect the largest portion of their revenues from user charges. Non-enterprise activities, such as Fire Protection, Resource Conservation, Recreation and Park, Road Maintenance, Bay Area Air Pollution Control, and County Lighting Service Area, rely most heavily on property tax revenues. The Legislative Analyst has suggested, "If legislative authorization were given, these (Fire Protection) districts would be able to replace much of the revenue lost through property assessments, so long as they were not based on property value. For example, assessments could be based on square footage of buildings."*

An approach to minimize property tax allocations to special districts could consider a District's general obligation debt service and its potential for generating revenue.

* "The County of San Diego: The 1978-79 Property Tax Bill", Legislative Analyst, May 1978, Report No. 78-11, p. 15.

SANTA CLARA COUNTY POPULATIONS 1975-1978
BY CITY

CITY	PERCENT DISTRIBUTIONS				Population
	1975	1976	1977	1978	1-1-78
ARMSTRONG					
CAMPBELL	2.15	2.14	2.11	2.07	25,300
CUPERTINO	1.88	1.92	1.91	1.89	23,150
GILROY	1.30	1.37	1.43	1.46	17,900
LOS ALTOS	2.26	2.23	2.19	2.20	26,950
LOS ALTOS HILLS	.60	.60	.602	.607	7,425
LOS GATOS	2.05	2.03	2.05	2.07	25,350
MILPITAS	2.72	2.68	2.69	2.74	33,520
MONTESERENO	.27	.27	.270	.275	3,360
MORGAN HILL	.755	.85	1.01	1.22	14,950
MOUNTAIN VIEW	4.73	4.68	4.65	4.58	56,070
PALO ALTO	4.50	4.66	4.57	4.47	54,600
SAN JOSE	47.09	47.30	47.84	48.06	557,700
SANTA CLARA	7.12	7.70	6.97	6.92	84,600
SARATOGA	2.50	2.72	2.46	2.44	29,850
SUNNYVALE	8.73	8.82	8.73	8.70	106,400
UNINCORPORATED	11.38	10.94	10.52	10.29	125,800
TOTAL COUNTY POPULATION	1,033,100	1,054,600	1,205,000	1,222,800	1,222,800

SOURCE: Estimates by California State Dept. of Finance

TABLE A-2

CITY	Assessed Valuation net of HOPTR* and BTR* - - - -			
	1975-76 % Share	1976-77 % Share	1977-78 % Share	1977-78 % Share with HOPTR & BTR
Campbell	2.106	2.120	2.050	2.022
Cupertino	2.924	3.005	2.977	2.984
Gilroy	1.047	1.027	1.046	1.091
Los Altos	2.991	2.963	2.988	2.905
Los Altos Hills	1.015	1.033	1.071	1.011
Los Gatos	2.215	2.336	2.326	2.255
Milpitas	2.185	2.037	2.052	2.118
Monte Sereno	.335	.378	.380	.365
Morgan Hill	.716	.819	.962	.938
Mt. View	6.116	5.805	5.617	5.581
Palo Alto	8.828	8.824	8.456	8.330
San Jose	37.370	38.017	37.955	38.452
Santa Clara	7.794	8.436	8.725	8.846
Saratoga	2.931	3.158	3.207	3.102
Sunnyvale	10.385	10.206	10.534	10.507
Unincorporated	10.360	9.836	9.362	9.235
TOTAL AV.	4,383,308,456	5,048,175,164	5,828,251,330	6,501,825,603

*Home Owners Property Tax Relief and
Business Inventory Property Tax Relief

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